



3. FINANCIAL ACCOUNTING

3.1 Agency Accounting

New Hampshire's tradition is conservative fiscal budgetary practices. The budget is the key policy document and along with the related legislation dictates much of the accounting practices.

Essentially, there are two separate charts of accounts. The budget listing is called the Program Appropriation Unit (PAU) and is comprised of five two-digit fields. The PAU is organized by category of government, agency, unit, component, and subcomponent, which allows for grouping at various levels. The accounting chart of accounts is organized at the fund, agency, and organization code level. Organization codes can be viewed as cost centers. Having two numbering systems creates confusion and unnecessary information for people to store since both listings are used at different times. The PAU crosswalk allows users to map the two systems. It is highly desirable to design one numbering system.

Within the PAU, the level of control is considered to be at the expenditure class level. Transfers of appropriations within a PAU have various restrictions and can only be accomplished with fiscal committee and executive council approvals. Examples of some of the classes are salaries (010); current expenses (020); equipment (30); benefits (060); travel (070, 080). Transactions are further coded with revenue sources and expenditure objects codes for reporting purposes. To achieve greater flexibility in managing their accounts due to transfer restrictions, many agencies have attempted to consolidate their activities into one PAU. Transfers of appropriations are executed on TA documents and Accounting applies final approval.

The State's philosophy has been to limit the number of funds on IFS. The general fund captures the main activity of the State. The special revenue funds are the Highway Fund, the Fish and Game Fund, and the Education Fund. The Capital Fund is used to track spending for projects that are bonded. The enterprise fund includes the Liquor Fund, the Sweepstakes Fund, and the Turnpike Fund. The State is in the process of establishing a Self Insurance Fund. Accounting for specific projects and grants is accomplished by using organization codes. Agencies that require grant/project accounting use the IFS job cost subsystem or other internally developed systems.

In addition to budgeting at the class level, each PAU has an associated source of funding (federal, other, transfer, general). Revenue that is dedicated to an activity is known as restricted revenue and reduces the dependency on the general fund to support the agency. Since there is so much pressure on spending, agencies frequently strive to identify and



dedicate revenue to escape the budgetary scrutiny. Agencies are required to generate the revenue budgeted or make corresponding reductions in appropriations. When the budget is loaded, the corresponding fund mix is also calculated. This is the ratio of funding for the particular organization code. If adjustments are needed to account for other budgetary transactions, the Business Supervisor can make changes at the class level on the Fund Mix (FMIX) table.

The total of all general funds budgeted is offset by unrestricted revenue. Unrestricted Revenue is general revenue that has not been earmarked. Examples are Business Profits Tax, Meals and Room Tax, and Court Fines and Fees. The surplus statement is the tool to demonstrate that unrestricted revenue is sufficient to satisfy the net appropriations budgeted.

The legislative staff electronically transfers the final approved budget to Administrative Services, which is loaded to IFS. This feed is processed through a program called SYSOK. It insures that there is a place in the accounting system for every revenue source, every expenditure class, and every combination of agency and fund. After this is validated, the budget transaction is executed and paper appropriation warrants are produced. The warrant is the official notification to the agency of the authority to spend.

There are other mechanisms by which agencies can secure additional appropriations. Legislation either through RSA or chapter laws allows for appropriations. Examples include additional litigation expenses, legal settlements, termination pay, and workers compensation. In addition, when agencies are awarded federal grants in amounts different than budgeted, Governor and Council approval is required for the appropriation increase.

System controls prevent expenditures from exceeding the adjusted authorized budget at the class level. In addition to collecting revenue, an agency department head is responsible for not exceeding the appropriation authority. In rare situations, exceptions are allowed and Accounting adjusts the Spending Control Indicator to 'Y,' which allows a class to accept expenditures greater than the appropriation and therefore go negative. Examples of this are for payroll and special appropriations governed by Revised Statutes Annotated (RSA). Subsequent warrants or transfers are then processed. Disbursements against appropriations take place via payment vouchers, manual warrants, or payroll transactions, which are described in more detail below. Revenue is collected using cash receipt documents. Agencies can also transfer expenditures (used for corrections) and transfer appropriation (used to move appropriation between classes or organization codes).

The main reports are the Statement of Appropriation (149), the Detail Transaction Register (601), and the Detail Unrestricted Revenue Report (612). These reports provide the agency the funding status of each organization code.



Agencies develop plans to spend appropriations over the 12 months of the fiscal year. The plans are only captured in the system using the APPR table. This is a high-level table only capturing the budget vs. actual spending consolidated at the fund/ agency level on a quarterly basis. Further planning is captured offline using spreadsheets. Agencies can monitor their revenue and spending activity using a variety of computer reports, IFS tables, and the data warehouse.

Special treatment occurs for salaries and benefits. The budget is loaded based upon the incumbent in the position at the beginning of budget development and additional appropriations are factored in for pay raises. Budget variances occur due to turnover of staff, reclassification of staff, and overall benefits increases in amounts greater than anticipated. According to statute, there are two special accounts called the salary and benefit adjustment funds. On a quarterly basis, agencies transfer excess general funded appropriation into the fund to be used by other agencies that have shortfalls. Transfer limitations do not allow agencies to use salary and benefit appropriations for any other purpose.

Encumbrances are processed to reserve appropriation balances for specific commitments. The Division of Purchasing posts POs to the system for purchases of commodities. The Division of Accounting posts CEs to the system for contracting of services. When payments are made against these encumbrances, the encumbrance number is referenced and the transaction liquidates the encumbrance and also posts the expenditure.

Various sync reports have been developed to ensure the system's various tables and ledgers are in balance. Every week, Accounting runs a set of sync reports. Since the various tables cross-reference each other, they are verified if one table feeds to another. Examples of sync error conditions are:

- Accounting prepares two documents to post an expenditure authorization: 1) an AA document that is at a high level and 2) an EB document that is at a lower level. If some of the information is not correct in these two documents, the system is out of sync.
- Accounting verifies that all of the Trial Balance (TBAL) accounts, when summed, equal what's on the Trial Balance and the Fund Control Table (FCTL)

Accounting can research the problems by reviewing the A601 report, which is a daily detail transaction register.

3.1.1 Business Rules

Below is a list of the business rules for accounting.



- In the current system, if there are tables with information at the line level (Payment Vouchers and Purchase Orders, for example) and a table at the header level, the system will add up all of the header and line tables and verify that the two numbers agree.
- ‘Sync Reports’ are necessary because there have been so many modifications to the original system.

3.1.2 Issues / Vision

Below is a list of issues with the existing system, as well as needs for the new ERP system.

- The system is not on the accrual basis. The goal is to provide for a flexible system that can handle both cash and different levels of accrual accounting.
- The current system does not track transactions to budget year. A significant number of accounts carry forward and the system does not maintain the fiscal year identifier.
- In the current system, multiple entries are required for budgetary entries. In the new system, the State wants the ability to enter data once at the detailed level, which will automatically update summary tables.
- Electronic workflow needs to be incorporated to eliminate much of the paper transactions.
- Data entry is the method for getting information into IFS. Currently, there’s a potential for duplication of effort; that is, agencies are doing something “offline” within the department prior to entering data into IFS. For example, some agencies use an Access database to store claim-level detail while the totals are fed electronically to IFS.
- State personnel want a windows-based environment with a user-friendly interface and drop down choices of organization codes, fund codes, and object class codes. Menu selections would allow for point and click access with minimal input needed. Multiple windows should be capable of being open simultaneously.
- The new system should be real-time.
- Sometimes, there’s one transaction allocated over 20 different accounts. It may be useful to have predefined percentages for phone or utility bills, for example. As an example, some agencies use a spreadsheet for rent to allocate to each organization



code, and then give to accounts payable to key in. AP has to key in each accounting line.

- A suspense file that's easier to read would be nice. Finding a transaction within an agency can be a struggle.
- Due to IFS being inflexible, charges frequently go into one account. The entry doesn't hit right to begin with so the agency is forced to do a correcting entry.
- A transaction in IFS doesn't currently kick out right away even if it with other transactions in process exceeds the appropriation available balance. There needs to be a more immediate warning or error.
- There's a need for site (location) codes.
- If the Chart of Accounts is expanded, agencies would like the ability to turn fields off and on (required vs. optional).
- A date of service field is needed.
- Having different codes for accounting and for budget is not useful. There needs to be one coding system driven by budget with the same numbering structure.

3.2 Payment Vouchers

Disbursements against appropriations take place via payment vouchers, manual warrants, and payroll transactions. The next three sections will discuss each in detail.

The Payment Voucher (PV) process begins when an agency receives an invoice for goods or services and ends with issuance of a check. Invoices are attached to a PV and the required accounting fields are recorded on the document. The document is signed by the preparer and keyed into IFS. The supervisor signs the document and applies the electronic approval in IFS. The document is forwarded to the Division of Accounting where after a detailed review is performed the document is initialed and final approval is applied in the system. Based upon scheduled payment date, a check is generated and disbursed by the Treasury Department.

3.2.1 Business Rules

Business rules that affect the PV Process follow.



- An invoice for an unencumbered PV must not exceed \$500, including shipping with FPO.
- A miscellaneous vendor code may be used for one-time payments. If, however, the vendor will receive cumulative payments of more than \$999 during the year, a vendor code and tax alternative W-9 for are required.
- If material submitted by the agency is correct and complete, Accounting approves the voucher for payment within 48 hours of its receipt.
- Original invoices must be attached to the payment PV.
- Payment for services greater than \$5,000 must have Governor and Council approval.
- The Director of Information Technology must approve payments for Information Technology product or services greater than \$250.

3.2.2 Issues / Vision

Issues related to the PV Process follow.

- A PV must be prepared twice – once on paper and again in IFS. This necessitates duplicate entry.
- Online reference documents such as Purchase Orders or Contract information are inadequate.
- The current system is very paper intensive. EDI or scanning of invoices is not widely used.
- Procurement cards for small transactions are not used. Use of cards would be more efficient than preparing separate accounting entries for each transaction.
- The system does not allow for vendor self service to check on the status of payments.
- The system does not efficiently capture opportunities for cash discounts. Keying in invoice dates and matching to payment terms could automatically generate disbursement and associated savings.
- The system does not allow for flexible security levels by type of expenditure or dollar limits.
- PVs do not allow for easy charge off to multiple accounts. The new system should be able to charge off expenses based upon predefined rules.

For information on Manual Warrants, please see Accounts Payable Section 4.4.

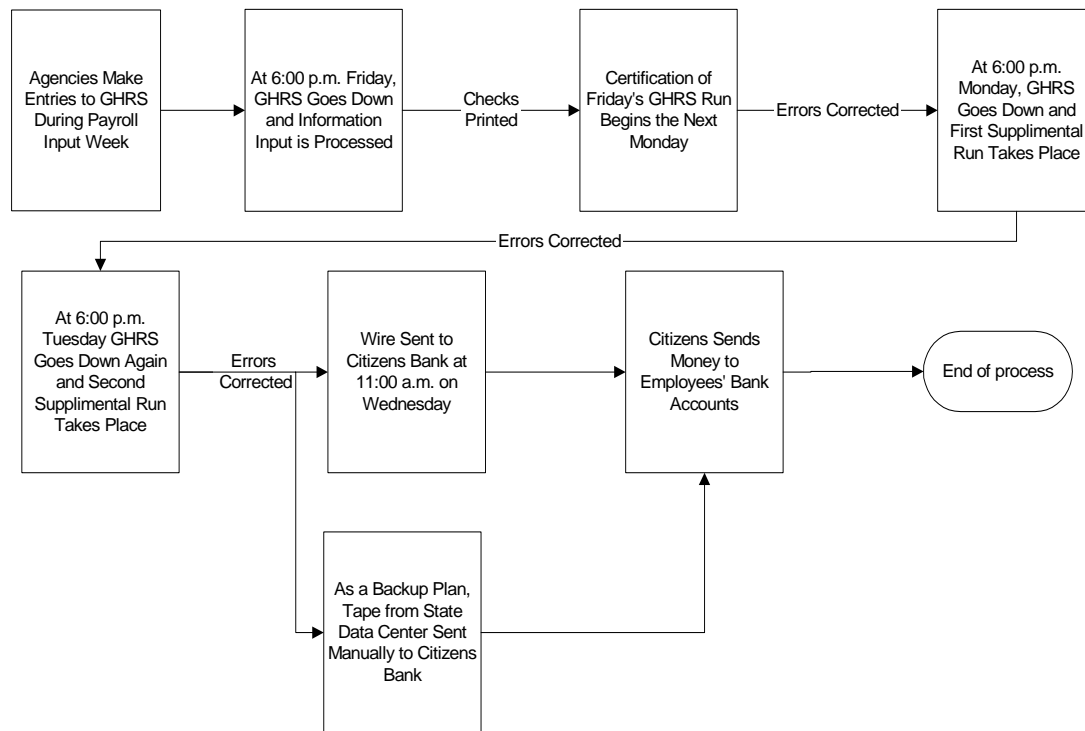


3.3 Payroll

The State currently uses the same vendor for its financial system (IFS) and its human resource system (GHRM). All financial data is maintained in IFS, and selected tables are carried over nightly to GHRM. Similarly, GHRM updates IFS when the payroll process is run. There are thousands of lines of information every pay period, generated to pay 15,000 employees. The payroll process involves summarizing and distributing gross pay as well as accounting for deductions for each of these 15,000 employees.

An electronic Journal Voucher (JV) is created for every payroll. This JV is made up of a series of payroll numbers, which allows each agency to group its employees. (The Women's Prison, for example, may make up one payroll number). Checks are produced and distributed by payroll number.

State employees are paid every two weeks. The first week is known as 'input week.' New hires, terminations, employee changes – all are inputted that first week into GHRM. At 6:00 p.m. on the Friday night of input week, GHRM is brought down and all information is processed. This takes about 30 hours. The following Monday starts 'certification week' – certifying the results of the Friday night run. All of the checks from the Friday run have been printed and are now sitting in Treasury, and everything is available for review Monday morning. The goal is to make sure everything that was input during the previous week was valid.



Any errors found on Monday can be corrected Monday night. At 6:00 p.m. on the Monday night of certification week, GHRS is brought down again for the second payroll process. Many of the errors discovered Monday morning are corrected during this second run, but not all – so the same process occurs again on Tuesday night. The Monday and Tuesday night runs are called supplemental runs and usually last about six hours instead of 30 because they are only handling corrections.

Certification still takes place on Wednesday morning, but there's a cutoff because of Electronic Funds Transfer (EFT) rules – the Federal Reserve Bank needs two business days to wire money to banks. That wire is sent out at 11:00 a.m. on Wednesday. The State bank is Citizens, and the funds are electronically transferred there – which in turn will send the funds to each employee's bank account. (As many as 55 percent of employees get notices of direct deposit; 45 percent get regular checks.) As a backup scenario, the State Data Center, which has created a tape Tuesday night, could send that tape via courier to Citizens Bank to be loaded manually if necessary. This tape will have the data for Friday, Monday, and Tuesday nights.

If an employee is underpaid, that employee would contact the head of his or her agency, who would in turn contact the head of payroll. It's usually the head of the agency who



determines if the employee will get a manual check for the difference or will get paid the next period. If instead there's an overpayment, the State may just reduce the check next time or an employee may request a check for the corrected amount. That replacement check would be issued once the incorrect check is returned.

If there's an overpayment and it's part of a direct deposit, the State has five business days to get the money back from bank. The Treasury would write a letter to Citizens Bank, which would create a negative electronic transfer. This would be sent again through the Federal Reserve System. But once the Tuesday night/Wednesday morning tape is completed, there's nothing the State can do. That is, it must live with what's on the tape. So if there's an overpayment, it can only request that Treasury put through a reversal. It doesn't stop the initial overpayment, which will go from the Data Center to Citizens Bank, through the Federal Reserve and finally to an employee bank account. But right behind it will be the credit which will take money out of the employee's account and give it back to Citizens – which in turn will put the money back into the State's account.

GHRIS creates many canned, exception, and control reports. The State Payroll team looks at several things in the canned reports: detail in the payroll register; detailed earnings to support the JV; and advice to vendor. This advice to vendor is a detailed list with employees who are part of a certain deduction. The Payroll team also looks at some exception reports –deductions not included in an employee's check is one example of an exception report. This is part of database management. If a deduction or credit doesn't get applied, there could be a potential for overpayment.

Every payroll is balanced manually. Current checks are added to the previous balance, which will be used as the beginning balance for the next pay cycle. The Payroll team tracks year-to-date balances to make sure they stay in sync. There are many tables in GHRIS that have summary and detail records. It's important to make sure that the detail matches the summary.

Payment Vouchers are used to distribute deductions to the appropriate vendor. But instead of an agency creating a PV and sending it down to Accounting, GHRIS does that. These PVs are electronically generated; there is no keying. Every deduction has a vendor number attached to it. All deductions that are common from the 15,000 employees are put into a PV. Over 130 possible deductions go to 90 different vendors. These are created in GHRIS and migrated to IFS.

The checks are scheduled to be generated Wednesday night. The detail (advice to vendor) is manually added to each check and the mailed out on Thursday. Some vendors payments are made electronically – for example, Aetna Insurance Company has 401(k) gets a file transfer on Wednesday of the advice to vendor and then the State EFT's the money on Thursday. But most vendors receive their checks in the mail.



There are two types of JVs – expenditures (debits) and liabilities (credits). There are \$15 million in direct costs and \$2 million in benefits for a total of \$17 million each pay period, so the following example may not be completely realistic. But if an employee receives \$100 in gross pay, there may be \$20 in deductions for a total of \$80 in net pay. The liability side of the books would have two entries: \$80 and \$20. The expenditure side would have one: \$100. The Payroll team goes to great lengths to make sure liabilities and expenditures match. Gross pay, net pay, and each deduction run through balance accounts. Each liability represents an amount owed to vendor. When the State generates a PV to liquidate a liability, it debits the balance sheet account so that that balance sheet account should be zero. Similarly, the clearing account at the end of a payroll process should be zero.

3.3.1 Issues / Needs

Below is a list of issues with the existing system, as well as needs for the new ERP system.

- There must be an automated distribution of expenditures, deductions, and EFTs to the various vendors.
- The State wants electronic feed of time and attendance.
- The State needs extended hours for GHRIS.
- More ad-hoc reporting is needed.
- There needs to be the ability to cut checks more often for employees.
- The new system needs to be flexible enough to handle specialty program (food allowances, for example, result in a payment to an employee). When things come up in collective bargaining and an employee is entitled to a new benefit, the new system should be able to handle it.
- Overtime is currently paid out of a separate org; need to override.
- New system must do flat fees vs. hourly.
- Agencies would like to see instate miles paid through payroll. There are several disadvantages to this however: 1) employees have to wait for the two week cycle to get paid and 2) Accounting wants to make sure agencies have accountable plans.



3.4 Closing

3.4.1 The Agency Phase

The fiscal year closing of the books begins with the Agency Closing Meeting where agency financial personnel are brought together to review procedures. The instructions include:

- Closing actions for each and every appropriation account through the FCLG table;
- Reviewing accounts to ensure year end balances are appropriate and making necessary adjustments;
- Recording year end accounts receivables; and
- Submitting required exhibits to Accounting.

Administrative Services monitors the year-end closing actions with staff from the Budget Office and Accounting Services.

The FCLG table is an automated tool used to close out each individual appropriation account by providing coding instructions. The instruction are either to bring balance forward; lapse balances; or to close out spending balances to estimated revenue receipt accounts. Each appropriation class line or group accounts are required to have a specific closing action along with the legal citation associated with the action. The instructions also specify if encumbrances are carried forward in class or as an old year reserve.

The agency closing process lasts through approximately the third week of July. In July two accounting periods are active, the new-year and the thirteenth period of the prior year. The FCLG is continually applied against the statement of the appropriations on a tentative basis so the managers can review the status of their accounts. Part of the overall balancing of the Surplus statement is dependent on the lapse calculation, and through the thirteenth period these reports are continuously analyzed.

3.4.2 The MTI-3 Phase

The MTI-3 is another budgetary phase used by Financial Reporting to make corrections to entries made during the Agency Phase or to update accounts receivable estimates for information that becomes available subsequent to year-end. After the close of the Agency phase, the balances roll forward into MTI-3. MTI-3 is only used for financial reporting of end of the year budgetary results and is not made available to the agencies.



3.4.3 The GAAP Phase

The MTI-3 budgetary database is the starting point for rolling the budgetary numbers to financial statements prepared on a modified accrual basis (“GAAP”). There are more than 50 entries that are required to convert to GAAP. These entries, which are at a higher level, are keyed off book into Excel spreadsheets and grouped by fund. Income statements entries are recorded at the summary level – revenue by revenue group and expenditure by category of government.

The most common adjustments are for accrued expenses. Accounts Payable, Accrued Payroll and Medicaid Payable along with the offsetting receivables are recorded in this phase. The totals from the Excel spreadsheet are merged to the trial balance, which are further linked to financial statements summaries. The spreadsheets are linked to PageMaker publishing software that produces financial statements.

GAAP entries are described below:

Accrued Expenses are recognized for goods or services received by the State as of June 30th but not paid until after June 30th. The source data for accounts payable are agency payments in the subsequent year with special coding to indicate if they are accounts payable at June 30th. On a budgetary basis, the expense shows in the subsequent year but on a GAAP basis the expense will be reflected in the current year.

Reclassification or eliminations occur to eliminate much of the double counting of revenue and expenditures that result from one agency paying another agency.

Deferred Revenue is money received by the State prior to June 30th but the funds have not been earned as of June 30th. An example is a grant paid to the State in advance of the State expenditure. Another example could be that the state is owed money at June 30th but it technically is not available at June 30th. The State generally uses the 60-day rule to measure availability. A significant portion of business taxes and interest and dividends tax received after August 31 represents taxable activity prior to June 30th. In accordance with GASB 33, it is necessary on the modified accrual basis to recognize this activity by debiting accounts receivable and crediting deferred revenue.

3.4.4 GASB 34

Beginning in FY 2000, the State implemented GASB 34 which converted the fund level financial statements prepared on a modified accrual government wide statements presented on a full accrual basis. The starting point of the conversion is the total of the GAAP statements. The GASB 34 entries are posted to the worksheets at the government wide basis and not on the fund basis. There are approximately 50 government wide



adjustments. For instance, expenditures for fixed assets are reclassified from expense to additions to assets. Payments of principal are reclassified from expenditures to reductions in debt. Again, the conversion is executed offline on a series of spreadsheets. The resultant financial statements are called the Statement of Net Assets and the Statement of Activities.

The Statement of Activities focuses on the net cost of an activity. Revenue is reclassified from a fund group basis to new categories of Program Revenues and General Revenues. Program Revenues are further broken down at the function level and further broken detailed by Charge for Services; Operating Grants; or Capital Grants.

3.4.5 Timeframe

The Agency Phase cuts off the third week of July, and by statute the audited CAFR must be submitted September 30. During this period, Accounting utilizes the ending balances from the agency phase, collects data from the agencies, and extracts information from the data warehouse to execute the series of conversions.

The State works closely with the agencies to review the information and runs various analytical tests to verify the accuracy of the data. The agency closing review manual has specific due dates to make sure the process runs as planned.

There are some entities that have a significant financial relationship with the State which are reportable in the CAFR. These entities are called component units to the primary government. Due to the relationship, the statements might be misleading if they were not included. The University of New Hampshire, the Retirement System and Pease Development Authority are the major activities. These entities forward their statements to accounting for inclusion in the CAFR.

The State has in the past several years finalized the audit by December 1. The State has been recognized by the GFOA for excellence in financial reporting. The state has joined in the faster CAFR project and will be issuing the FY 2003 CAFR on November 6, 2003.

3.4.6 Business Rules

Below is a list of the business rules for accounting.

- The unaudited statements must be completed by September 30 and the final audited statements completed by December 31.
- The State follows government accounting principles and is audited in accordance with government auditing standards.



3.4.7 Issues / Needs

Below is a list of issues with the existing system, as well as needs for the new ERP system.

- The State would like to automate the record of entries in the system, which would eliminate the conversion.
- The State wants the new system to continue the FCLG closing program. This will require work on the ERP vendor's part, but the State wants the ability to close books as it does now.
- On a general fund basis, it would be nice to know how each agency is doing in terms of spending.
- The State would like the ability to apply statistics to a particular grant.
- Schedules done offline at year-end could be done in new system.
- The State would like to eventually move to closings on a quarterly or monthly basis. If the State goes to more frequent closings, agencies would like to see statements online and in a printer-friendly format.
- Functionality is needed to track individual programs, stores, and sites.
- No one thinks IFS is sufficient for reporting. There's an assumption that the new system will have standard reports so that agencies don't have to use external programs. There's also a desire to have the flexibility to create ad-hoc reports, not just canned reports.
- The new system should automate the annual survey done by LBA.
- The new system will need some capacity to determine the flow going forward for left over monies at the end of the year.
- It's important for the State to keep FCLG or an equivalent, though FCLG needs to have more decimal points because State agencies can't currently zero out accounts completely.
- The State would like to see more edits/errors/warnings. When a grant ends and an agency wants to end the job number it's using, for example, the agency has to re-activate the job number to liquidate any encumbrance.

